

Tri County Area Schools

Financial Report
with Supplemental Information
Including Compliance Information

Year Ended June 30, 2004

TRI COUNTY AREA SCHOOLS
YEAR ENDED JUNE 30, 2004

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**TRI COUNTY AREA SCHOOLS
ADMINISTRATIVE PERSONNEL
YEAR ENDED JUNE 30, 2004**

Board of Education

Marie Sicklesteel	President
Mike Bergman	Vice- President
Janet Powell	Secretary
Rick Fahner	Treasurer
Mark Meredith	Trustee
Mark VanDyke	Trustee
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Superintendent

James K. Scholten

Business Manager

Tamera L. Powers



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INDEPENDENT AUDITORS' REPORT ON
GENERAL-PURPOSE FINANCIAL STATEMENTS
AND SUPPLEMENTAL FINANCIAL INFORMATION

October 21, 2004

Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These general-purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1-M. to the financial statements, certain errors resulting from an understatement of previously reported expenditures for the year ended June 30, 2003 were discovered during the current year. Accordingly, an adjustment has been made to the fund balance as of July 1, 2003 to correct the error.

Board of Education
Tri County Area Schools
Howard City, Michigan

The administration's discussion and analysis and budgetary comparison information on pages 5 through 11 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2004 on our consideration of Tri County Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Tri County Area School's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and/or as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and for the purpose of complying with the provisions of Michigan Revised School Code (Public Act 451 of 1976, as amended), Part 17-Bonds and Notes, Section 380.1351(a), all of which are not a required part of the financial statements. Such information relative to June 30, 2004 and for the year then ended has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. Such information relative to June 30, 2003 and for the year then ended was subjected to auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2003 and is presented here for comparison purposes only.

Page, Olson & Company

**TRI COUNTY AREA SCHOOLS
ADMINISTRATION'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

This section of Tri County Area Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2004. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Tri County Area Schools financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund - the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Administration's Discussion and Analysis
(Required Supplemental Information)

Basic Financial Statements

District-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for the General Fund

Other Supplemental Information

Compliance Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

TRI COUNTY AREA SCHOOLS ADMINISTRATION'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District may establish other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental Fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statements of activities) and the governmental funds in a reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**TRI COUNTY AREA SCHOOLS
ADMINISTRATION'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2004 and 2003:

TABLE 1

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$ 5,897,585	\$ 6,328,449
Capital Assets - Net of Accumulated Depreciation	13,840,258	13,969,707
Total Assets	19,737,843	20,298,156
Liabilities		
Current Liabilities	2,316,849	2,000,607
Long-Term Liabilities	11,088,200	11,795,439
Total Liabilities	13,405,049	13,796,046
Net Assets		
Invested In Property and Equipment - Net of related debt	3,087,233	2,613,812
Restricted for Debt Service	220,585	511,998
Restricted for Capital Projects	424,865	198,350
Unrestricted	2,600,111	3,131,502
Total Net Assets	<u>\$ 6,332,794</u>	<u>\$ 6,455,662</u>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$6,332,794 and \$6,455,662 at June 30, 2004 and 2003, respectively. Capital assets, net of related debt totaling \$3,087,233 and \$2,613,812 compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted for Debt Service net assets of \$220,585 and \$511,998 and Restricted for Capital Projects net assets of \$424,865 and \$198,350 are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$2,600,111 and \$3,131,502 were unrestricted.

The \$2,600,111 and \$3,131,502 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for the fiscal year's 2004 and 2003.

**TRI COUNTY AREA SCHOOLS
ADMINISTRATION'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

TABLE 2

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Revenue		
Program revenue:		
Charges for Services	\$ 714,711	\$ 594,837
Grants and Categoricals	2,044,986	2,111,691
General Revenue:		
Property Taxes	2,320,831	2,588,154
State Foundation Allowance	13,442,787	13,772,905
Other	76,147	68,293
Total Revenue	18,599,462	19,135,880
Function/Program Expenses		
Instruction	10,711,666	10,117,497
Support Services	6,255,902	5,912,932
Athletics	246,870	227,961
Food Services	667,783	625,930
Community Services	70,638	20,696
Payments to Other Districts and Site Improvement	201,946	268,124
Interest and Fees on Long Term Debt	567,525	708,571
Total Expenses	18,722,330	17,881,711
Increase (Decrease) in Net Assets	<u>\$ (122,868)</u>	<u>\$ 1,254,169</u>

As reported in the statement of activities, the cost of our governmental activities was \$18,722,330 and \$17,881,711 for the years ended June 30, 2004 and 2003. Certain activities were partially funded from those who benefited from the programs through charges for services (\$714,711 and \$594,837, respectively) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$2,044,986 and \$2,111,691, respectively). We paid for the remaining "public benefit" portion of our governmental activities with \$2,320,831 and \$2,588,154 in taxes, \$13,442,787 and \$13,772,905 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$122,868 for the year ended June 30, 2004. Key reasons for the change in net assets were a result of mid-year State Aid prorations, increase in operating expenditures, the repayment of bond principal, and changes in compensated absences. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 17, Statement VI.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

TRI COUNTY AREA SCHOOLS ADMINISTRATION'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$4,516,432, which is a decrease of \$506,195 from last year, 2.65% of total expenditures. The primary reasons for the decrease were increased heating fuel and electricity costs over the prior year by \$25,736, 10.3%; wage and salary expenditures increased over the prior by \$418,332, 4.01%; and employee insurances increased over the prior year by \$108,431, 4.99%. The General Fund experienced a compounding effect, while expenditures increased by \$520,683, 3.20%, over the prior year, the General Fund revenue decreased by \$226,925, 1.32%, from the prior year.

The Special Revenue Funds remained fairly stable with a decrease of \$5,500 from last year.

Combined, the Debt Service Funds showed a fund balance decrease of \$291,113 due in large part to the closing of the 1993 Debt Fund. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues and financial sources were increased by \$549,579 which is a 3.31% increase overall from the original budget. However the makeup of the sources was changed significantly as State sources were decreased significantly due to a mid-year State Aid proration and prior year State Aid adjustments.

Budgeted expenditures and financial uses were increased \$184,539, which is a 1.06% increase from the original budget. Primarily this was to reflect a restoration in anticipated State Aid and facility improvement needs.

The final budget to actual variance for the change in General Fund fund balance was \$49,453, 0.28%, as a percentage of budgeted General Fund expenditures and transfers.

Variances between the final budget and actual amounts were insignificant in occurrence. As noted in Note 2 to the financial statements, there were only two instances where the general fund expenditures exceeded the budget at the legal level for a total overage of \$66,023. \$64,450 of this overage was due to a change where expenditures were coded for technology assisted instruction as required by the State.

**TRI COUNTY AREA SCHOOLS
ADMINISTRATION'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004 the School District had \$19,349,180 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. The amount represents a net increase (including additions and disposals) of \$214,777 or 1.1%, from last year.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Land	\$ 756,211	\$ 756,211
Buildings and Improvements	16,443,247	16,193,247
Buses and Other vehicles	1,492,171	1,646,289
Furniture and Equipment	<u>657,551</u>	<u>538,656</u>
Total Capital Assets	19,349,180	19,134,403
Less Accumulated Depreciation	<u>(5,508,922)</u>	<u>(5,164,696)</u>
Net Capital Assets	<u>\$ 13,840,258</u>	<u>\$ 13,969,707</u>

The actual additions for the year were \$368,895 and included a building and several copiers placed throughout the District. No debt was issued for these additions.

In order for the district to maintain capital assets at their June 30, 2003 book value, the district would have needed to invest an additional \$129,449 in capital outlay during the year, i.e., the district's assets are depreciating faster than the district is investing in new or replacement equipment.

We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At June 30, 2004, the School District had \$12,021,286 in long-term debt obligations outstanding. This amount represents a net decrease (including additions and payoffs) of \$495,558, or 3.96%, from last year.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Bonded Debt	\$ 10,851,846	\$ 11,442,659
Copier Lease Payable	-	12,057
Post-Retirement Compensated Absences Payable	364,081	99,466
Compensated Absences Payable	<u>805,359</u>	<u>962,662</u>
Total Long-Term Debt Obligations	<u>\$ 12,021,286</u>	<u>\$ 12,516,844</u>

We present more detailed information about our long-term liabilities in the notes to the financial statements.

**TRI COUNTY AREA SCHOOLS
ADMINISTRATION'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Contacting the School District's Financial Management

The financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, 94 Cherry Street, Sand Lake, Michigan 49343.

**TRI COUNTY AREA SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2004**

Statement I

Governmental
Activities

Assets

Current Assets

Cash and Cash Equivalents	\$ 2,677,709
Due from Other Governmental Units	2,994,379
Accounts Receivable	67,350
Inventories	98,759
Prepaid Expenses	<u>31</u>

Total Current Assets 5,838,228

Noncurrent Assets

Deferred Bond Issue Costs	59,357
Capital Assets	19,349,180
Less: Accumulated Depreciation	<u>(5,508,922)</u>

Total Noncurrent Assets 13,899,615

Total Assets

\$ 19,737,843

Liabilities and Net Assets

Liabilities

Current Liabilities

Accounts Payable	\$ 69,264
Accrued Salaries and Withholdings	1,239,192
Accrued Interest	75,307
Bonds & Notes Payable, due within one year	715,000
Compensated Absences, due within one year	<u>218,086</u>

Total Current Liabilities 2,316,849

Noncurrent Liabilities

Bonds & Notes Payable	10,136,846
Compensated Absences	<u>951,354</u>

Total Noncurrent Liabilities 11,088,200

Total Liabilities

13,405,049

Net Assets

Invested in Capital Assets, Net of Related Debt	3,087,233
Restricted for Debt Service	220,585
Restricted for Capital Projects	424,865
Unrestricted	<u>2,600,111</u>

Total Net Assets

6,332,794

Total Liabilities and Net Assets

\$ 19,737,843

The accompanying notes are an integral part of the financial statements.

**TRI COUNTY AREA SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

	2004			Statement II
	Program Revenues			Governmental Activities
	Operating Grants/ Contributions			Net (Expense) Revenue and Changes in Net Assets
Functions / Programs	Expenses	Charges for Services		
Primary Government- Governmental Activities:				
Instruction	\$ 10,711,666	\$ 193,756	\$ 1,603,352	\$ (8,914,558)
Support Services	6,255,902	53,904	111,304	(6,090,694)
Athletics	246,870	73,540	9,001	(164,329)
Food Services	667,783	369,086	321,329	22,632
Community Services	70,638	24,425	-	(46,213)
Payments to Other Districts and Site Improvement	201,946	-	-	(201,946)
Interest and Fees on Long Term Debt	567,525	-	-	(567,525)
Total Governmental Activities	\$ 18,722,330	\$ 714,711	\$ 2,044,986	(15,962,633)
General Revenues:				
Taxes				
Property Taxes, Levied for General Purposes				1,444,803
Property Taxes, Levied for Debt Services				876,028
State Aid Not Restricted to Specific Purposes				13,442,787
Interest and Investment Earnings				26,104
Other				50,043
Total General Revenues				15,839,765
Change in Net Assets				(122,868)
Net Assets - Beginning of the Year				6,455,662
Net Assets - End of the Year				\$ 6,332,794

The accompanying notes are an integral part of the financial statements.

TRI COUNTY AREA SCHOOLS
BALANCE SHEET - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

Statement III

	2004		
	Other Nonmajor Governmental		
	General Fund	Funds	Total
Assets			
Cash and Investments	\$ 1,883,749	\$ 793,960	\$ 2,677,709
Taxes Receivable	2,005	378	2,383
Accounts Receivable	64,968	-	64,968
Due from Other Funds	42,543	30	42,573
Due from Other Governments	2,990,034	4,345	2,994,379
Inventories	86,882	11,877	98,759
Prepaid Items	31	-	31
Total Assets	<u>\$ 5,070,212</u>	<u>\$ 810,590</u>	<u>\$ 5,880,802</u>
Liabilities and Fund Balance			
Liabilities			
Accounts Payable	\$ 43,664	\$ 25,600	\$ 69,264
Due to Other Funds	-	42,573	42,573
Accrued Items	480,157	-	480,157
Salaries Payable	759,037	-	759,037
Deferred Revenue	3,214	10,125	13,339
Total Liabilities	1,286,072	78,298	1,364,370
Fund Balances			
Reserved for Inventories	86,882	11,877	98,759
Reserved for Debt Service	-	220,585	220,585
Reserved for Capital Projects	-	424,865	424,865
Unreserved-Designated for Funding of Future Vested Benefits	1,169,440	-	1,169,440
Unreserved-Undesignated	2,527,818	74,965	2,602,783
Total Fund Balance	<u>3,784,140</u>	<u>732,292</u>	<u>4,516,432</u>
Total Liabilities and Fund Balance	<u>\$ 5,070,212</u>	<u>\$ 810,590</u>	<u>\$ 5,880,802</u>

The accompanying notes are an integral part of the financial statements.

TRI COUNTY AREA SCHOOLS
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

Statement IV

	2004		
	Other Nonmajor Governmental		
	General Fund	Funds	Total
Revenue			
Local Sources	\$ 1,691,942	\$ 1,330,767	\$ 3,022,709
State Sources	14,457,281	26,860	14,484,141
Federal Sources	520,354	294,469	814,823
Interdistrict and Other Sources	264,956	-	264,956
Total Revenue	16,934,533	1,652,096	18,586,629
Expenditures			
Instruction	10,451,400	-	10,451,400
Support Services	6,037,393	-	6,037,393
Athletics	-	238,926	238,926
Food Service	-	667,783	667,783
Community Services	70,638	-	70,638
Payments to Other Districts	174,539	-	174,539
Building Improvements Services	16,408	-	16,408
Other Transactions	8,161	-	8,161
Capital Projects	-	249,736	249,736
Debt Service			-
Principal	12,138	665,000	677,138
Interest and Fees	-	506,749	506,749
Total Expenditures	16,770,677	2,328,194	19,098,871
Other Financing Sources (Uses)			
Sale of Fixed Assets	6,047	-	6,047
Financing Proceeds	-	-	-
Operating transfers in	20,000	777,917	797,917
Operating transfers out	(626,000)	(171,917)	(797,917)
Total Other Financing Sources (Uses)	(599,953)	606,000	6,047
Net Change in Fund Balance	(436,097)	(70,098)	(506,195)
Fund Balance - July 1	4,220,237	802,390	5,022,627
Fund Balance - June 30	\$ 3,784,140	\$ 732,292	\$ 4,516,432

The accompanying notes are an integral part of the financial statements.

**TRI COUNTY AREA SCHOOLS
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO NET ASSETS
YEAR ENDED JUNE 30, 2004**

Statement V

Total Fund Balances - Governmental Funds	\$ 4,516,432
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

Cost of Capital Assets	19,349,180
Accumulated Depreciation	(5,508,922)

Other assets not available to pay current period expenditures therefore deferred in the funds	13,339
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Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Deferred Bond Issue Costs	59,357
Bond and Notes Payable	(10,851,846)
Compensated Absences	(1,169,439)

Accrued interest payable is not included as a liability in the governmental activities	<u>(75,307)</u>
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Total Net Assets - Governmental Activities	<u>\$ 6,332,794</u>
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The accompanying notes are an integral part of the financial statements.

**TRI COUNTY AREA SCHOOLS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Statement VI

Net Change in Fund Balances - Total Governmental Funds **\$ (506,195)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(498,344)	
Capital Outlay	<u>363,904</u>	
		(134,440)

Amounts received for a sale of fixed assets are reported as revenue in the governmental funds; in the statement of activities the net gain or loss of the sale is recognized

-

Repayments of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

677,057

Issuance of new debt

-

Refunding of Debt

-

Governmental funds do not report interest until it is paid; interest is recorded when incurred in the statement of activities.

19,396

Amortization of deferred bond issue costs is reported in the statement of activities but not in the governmental funds

(3,710)

Amortization of bond premium/discounts is reported in the statement of activities but not in the governmental funds

(2,437)

Deferred Loss on bond refinancing is reported in the statement of activities but not in the governmental funds

(71,749)

Payments on post-retirement compensated absences is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

46,513

Added liability for new severance agreements entered into does not become an expenditure in the governmental funds until it is due, in the statement of activities it is an expense and increase in the long-term debt

(311,128)

Changes in the long term portion of compensated absences are reported as expenditures when financial resources are used in the governmental funds; in the statement of activities they are reported as accrued

157,303

Revenue reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds

6,522

Change in Net Assets of Governmental Activities **\$ (122,868)**

The accompanying notes are an integral part of the financial statements.

**TRI COUNTY AREA SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

Statement VII

2004

Assets

Cash and cash equivalents

\$ 134,857

Liabilities

Due to Student Groups

\$ 134,857

The accompanying notes are an integral part of the financial statements.

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Tri County Area Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

A. Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues to be available if they are reasonably expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and retirement pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the district.

The school district reports the following major governmental funds:

The **General Fund** is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

Additionally, the school district reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The school service funds are special revenue funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The school district maintains full control of these funds. The school service funds maintained by the school district are the Athletics Fund and Food Service Fund.

Debt Retirement Funds are used to account for the accumulation of funds, and for the payment of general long-term debt principal, interest, and related costs. The debt retirement funds maintained by the school district are the 1993 Debt Fund, 1999 Debt Fund, 2003 Debt Fund, and Durant Debt Fund.

Capital Project Funds are used to account for the expenses associated with construction and other capital projects. The school district presently maintains the 2003 Capital Project Fund that relates to the construction of the new business office. The district recently started an additional Capital Project Fund intended to account for future projects.

Fiduciary Funds are used to account for assets held by the school district in a trustee capacity or an agent. Fiduciary fund net assets and results of operations are not included in the district-wide statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The school district presently maintains a Student Activities Fund to record the transactions for student and parent groups for school and school-related purposes.

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

E. Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The taxing units that comprise the district levy taxes in December. The final collection date is February 28, after which uncollected taxes are turned over to the respective counties which pay off the delinquent real assessments and add the personal assessments to the county delinquent tax rolls.

Categorical grant program monies from State and Federal sources can only be used for specific costs. Any excess of funds received over expenditures from such funds are reported as deferred revenue or as liabilities to the funding agency if no future expenditures are allowable out of the remaining funds.

A liability is recorded for those amounts owed to teachers and other employees of the district who do not work during the summer when school is not in session but who have elected to have their salaries paid over the entire year. Likewise health insurance and other related benefits are also accrued in order to properly match the expenditures with the fiscal year in which the services of these employees were received.

F. Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the district-wide and fund financial statements.

G. Capital Assets

Capital assets, which include land, buildings, site improvements, equipment, and vehicles are reported in the district-wide financial statements. Capital assets are defined by the district as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The district does not have infrastructure type assets.

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

G. Capital Assets (Cont'd)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

<u>Asset</u>	<u>Years</u>
Buildings and additions	20-50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

H. Compensated Absences

It is the district's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay subject to payout on retirement is accrued when incurred in the district-wide financial statements. The liability for sick and similar leave absences has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A current liability for these amounts is reported in the fund financial statements only if they have matured, for example, as a result of employee retirement.

I. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. Comparative Data/Reclassifications

Comparative Data is not included in the school district's basic financial statements.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

M. Accounting Changes

The fund balance amounts reported in the fund financial statements were adjusted at July 1, 2003 as follows due to an error in reporting the liability for the MESSA payable:

General Fund - Fund Balance June 30, 2004	\$ 4,255,077
Adjustments:	
MESSA Payable Liability	<u>(34,840)</u>
Adjusted General Fund - Fund Balance July 1, 2003	<u>\$ 4,220,237</u>
Other Nonmajor Governmental Funds - Fund Balance June 30, 2004	\$ 813,998
Adjustments:	
MESSA Payable Liability	<u>(11,608)</u>
Other Nonmajor Governmental Funds - Fund Balance July 1, 2003	<u>\$ 802,390</u>

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information at the line item level. The legal level of budgetary control adopted by the board (i.e. the level at which expenditures may not legally exceed appropriations) is the function level for the general fund and at the fund level for the athletics and food service funds. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. The School District amended its budget at various times during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The following individual funds incurred expenditures in excess of the legal level of appropriations for the year ended June 30, 2004:

	<u>Budgeted</u> <u>Expenditures</u>	<u>Actual</u> <u>Expenditures</u>	<u>Excess</u> <u>Expenditures</u>
<u>General Fund</u>			
Support Services			
Monitors	30,900	32,473	1,573
Technology Assisted Instruction	-	64,450	64,450

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the school district is also allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The school district's deposits are in accordance with statutory authority.

At year end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

The School Board has designated four banks for deposit of School District funds and had investments in the Michigan Liquid Asset Fund, an investment pool that is not evidenced by securities that exist in physical or book entry form, at June 30, 2004.

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 2,677,709	\$ 134,857	\$ 2,812,566

At year end, the carrying amount of the district's cash and investments was comprised of the following:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Deposits with Financial Institutions			
Cash in Time and Interest bearing Savings Accounts	\$ 2,565,581	\$ 134,857	\$ 2,700,438
Investments			
Michigan Liquid Asset Fund	112,128	-	112,128
Cash on hand not yet deposited with Financial Institutions	-	-	-
Total Cash and Investments	<u>\$ 2,677,709</u>	<u>\$ 134,857</u>	<u>\$ 2,812,566</u>

Amounts covered by federal depository insurance were as follows:

	Insured (FDIC)	Uninsured	Total
Carrying Amount	\$ 100,000	\$ 2,712,566	\$ 2,812,566
Bank Balances	\$ 100,000	\$ 3,208,741	\$ 3,308,741

Larger amounts of deposits with financial institutions were uninsured and uncollateralized during the year than at year end due to varying cash flows. The school district believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 4 - RECEIVABLES

Receivables as of year-end for the district's individual major funds and the nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor and Other Funds	Total
Taxes	\$ 2,004	\$ 378	\$ 2,382
Accounts	64,968	-	64,968
Due from other governments	2,990,034	4,345	2,994,379
Gross receivables	3,057,006	4,723	3,061,729
Less: allowance for uncollectibles	-	-	-
Net total receivables	<u>\$ 3,057,006</u>	<u>\$ 4,723</u>	<u>\$ 3,061,729</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Delinquent property taxes receivable	\$ 2,025	\$ -
Gifts and Contributions	-	4,995
Prepaid Student Meals	-	6,319
	<u>\$ 2,025</u>	<u>\$ 11,314</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the school district's governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Assets not being depreciated:				
Land	\$ 756,211	\$ -	\$ -	\$ 756,211
Capital assets being depreciated:				
Building and Improvements	16,193,247	250,000	-	16,443,247
Buses and other vehicles	1,646,289	-	154,118	1,492,171
Furniture and equipment	538,656	118,895	-	657,551
Total capital assets being depreciated	18,378,192	368,895	154,118	18,592,969
Accumulated depreciation:				
Building and Improvements	(3,672,530)	(294,333)	-	(3,966,863)
Buses and other vehicles	(1,129,801)	(138,329)	(154,118)	(1,114,012)
Furniture and equipment	(362,365)	(65,682)	-	(428,047)
Total accumulated depreciation	(5,164,696)	(498,344)	(154,118)	(5,508,922)
Net Capital assets being depreciated	13,213,496	(129,449)	-	13,084,047
Net capital assets	<u>\$ 13,969,707</u>	<u>\$ (129,449)</u>	<u>\$ -</u>	<u>\$ 13,840,258</u>

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 5 - CAPITAL ASSETS (Cont'd)

Depreciation expense was charged to activities of the school district and reported on the district-wide statements as follows:

Governmental activities:	
Instruction	\$ 291,000
Support Services	188,711
Community Services	6,903
Food Services	3,656
Athletics	8,074
Total governmental activities	<u>\$ 498,344</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Athletics Fund	\$ 1,336
General Fund	Foodservice Fund	31,790
General Fund	1999 Debt Service	2,731
General Fund	2003 Debt Service	6,686
Food Service Fund	Athletics Fund	30
		<u>\$ 42,573</u>
 Transfer In to Fund	 Transferred From Fund	 Amount
General Fund	Food Service Fund	\$ 20,000
Athletics Fund	General Fund	151,000
2003 Debt Service Fund	1993 Debt Service Fund	151,917
Capital Project Fund	General Fund	425,000
2003 Capital Projects Fund	General Fund	50,000
		<u>\$ 797,917</u>

NOTE 7 - LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Durant Bonds are funded by the State of Michigan via specifically appropriated State Aid and will not require any district debt levy or utilization of any other district financial resources. Other long-term obligations include compensated absences.

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 7 - LONG-TERM DEBT (Cont'd)

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2003	Additions	Payments / Reductions	Balance June 30, 2004	Amount Due Within One Year
Bonded Debt	\$ 12,703,821	\$ -	\$ 665,000	\$ 12,038,821	\$ 715,000
Less deferred amounts:					
For Issuance discounts /losses	<u>(1,261,162)</u>	<u>-</u>	<u>(74,187)</u>	<u>(1,186,975)</u>	
Total Bonded Debt	11,442,659	-	590,813	10,851,846	
Copier Lease Payable	12,057	-	12,057	-	-
Post-Retirement Compensated Absences	99,466	311,128	46,513	364,081	218,086
Compensated Absences	<u>962,662</u>	<u>-</u>	<u>157,303</u>	<u>805,359</u>	Unknown
Total govern-mental activity long-term liabilities	<u>\$ 12,516,844</u>	<u>\$ 311,128</u>	<u>\$ 806,686</u>	<u>\$ 12,021,286</u>	

Annual Debt service requirements to maturity for each of these debts is as follows:

Bonded Debt

1999 Building and Site Bonds

Issued: June 17, 1999

Original Amount: \$3,680,000

Interest: 4.000 - 5.125% (due May 1 & November 1)

Principal Due: May 1,

Fiscal Year Ended	Interest	Principal
2005	\$ 165,865	\$ 105,000
2006	161,298	115,000
2007	156,180	140,000
2008	149,810	170,000
2009	141,905	190,000
2010-2014	560,070	1,115,000
2015-2019	266,465	1,265,000
2020	<u>13,837</u>	<u>270,000</u>
	\$ 1,615,430	\$ 3,370,000

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 7 - LONG-TERM DEBT (Cont'd)

Durant Bonds
 Issued: November 1998
 Original Amount: \$274,358
 Interest: 4.76%
 Due: May 15,

<u>Fiscal Year Ended</u>	<u>Interest</u>	<u>Principal</u>
2005	\$ -	\$ -
2006	3,375	7,487
2007	3,019	7,842
2008	2,645	8,217
2009	2,254	8,609
2010-2013	<u>17,178</u>	<u>66,666</u>
	\$ 28,471	\$ 98,821

2003 Refunding Bonds
 Issued: March 18, 2003
 Original Amount: \$9,140,000
 Interest: 2.00 - 4.15% (due May 1 & November 1)
 Principal Due: May 1,

<u>Fiscal Year Ended</u>	<u>Interest</u>	<u>Principal</u>
2005	285,976	610,000
2006	273,776	615,000
2007	261,476	600,000
2008	243,476	585,000
2009	225,926	575,000
2010-2014	844,523	2,795,000
2015-2019	356,374	2,465,000
2020	<u>13,487</u>	<u>325,000</u>
	\$ 2,505,014	\$ 8,570,000

Total Bonded Debt	<u>\$ 4,148,915</u>	<u>\$ 12,038,821</u>
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Post-Retirement Compensated Absences Payable

<u>Fiscal Year Ended</u>	<u>Principal</u>
2005	218,086
2006	66,090
2007	39,724
2008	31,871
2009	<u>8,310</u>
	<u>\$ 364,081</u>

Compensated Absences

Amount estimated at June 30, 2004	<u>\$ 805,359</u>
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TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 7 - LONG-TERM DEBT (Cont'd)

Advance Refundings

On March 18, 2003 the School District issued \$9,140,000 of General Obligation Bonds with an average interest rate of 3.62% for the purpose of refunding \$8,910,100 of the District's 1993 bonds which are due and payable for the years 2003 through 2020, and to pay the costs of issuance of the bonds. As of June 30, 2004, the amount of defeased debt outstanding but removed from the governmental activities column of the statement of net assets amounted to \$8,410,000.

Durant Non-Plaintiff Bond

Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources.

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to workers' compensation and the MASB/SEG (risk pool) for claims relating to property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

TRI COUNTY AREA SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Statement VIII

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS (Cont'd)

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 12.99 percent for the period July 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 to 4.3 percent of gross wages. The District's contributions to the MPSERS plan for the years ended June 30, 2004, 2003, and 2002 respectively were \$1,393,964, \$1,321,449, and \$1,204,971.

Post Employment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for the Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

NOTE 10 - CONTINGENCIES

The District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30.

The District is subject to legal proceedings arising in the course of providing education to students. However, in the opinion of the School's attorney and management, the resolution of these matters will not have a material effect, if any, on the financial condition of the School.

REQUIRED SUPPLEMENTAL INFORMATION

TRI COUNT AREA SCHOOLS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
YEAR ENDED JUNE 30, 2004

Schedule 1

	Original Budget	Final Amended Budget	Actual
Revenue			
Local Sources	\$ 1,648,560	\$ 1,649,785	\$ 1,691,942
State Sources	14,055,700	14,685,838	14,457,281
Federal Sources	627,520	542,966	520,354
Interdistrict and Other Sources	<u>264,030</u>	<u>260,760</u>	<u>264,956</u>
Total Revenue	16,595,810	17,139,349	16,934,533
Expenditures			
Instruction:			
Basic Program	8,778,060	8,646,260	8,603,478
Added Needs	1,607,550	1,886,495	1,847,922
Support Services			
Pupil	795,140	805,330	795,830
Instructional Staff	515,010	535,677	595,504
General Administration	424,200	344,900	331,972
School Administration	1,130,120	1,085,032	1,065,869
Business Services	348,600	349,990	344,805
Operations and Maintenance	2,093,150	1,744,880	1,676,734
Pupil Transportation	1,112,580	1,103,120	1,074,277
Technology	171,550	218,715	152,402
Community Services			
Child Care	29,750	74,310	70,638
Payments to Other Districts	177,660	177,660	174,539
Building Services	-	17,930	16,408
Debt Service	12,140	12,140	12,138
Other Transactions	<u>8,500</u>	<u>8,500</u>	<u>8,161</u>
Total Expenditures	17,204,010	17,010,939	16,770,677
Other Financing Sources (Uses)			
Sale of Fixed Assets	-	6,040	6,047
Financing Proceeds	-	-	-
Operating Transfers In	20,000	20,000	20,000
Operating Transfers Out	<u>(262,390)</u>	<u>(640,000)</u>	<u>(626,000)</u>
Total Other Financing Sources (Uses)	<u>(242,390)</u>	<u>(613,960)</u>	<u>(599,953)</u>
Net Change in Fund Balance	(850,590)	(485,550)	(436,097)
Fund Balance - July 1	<u>3,449,939</u>	<u>3,638,116</u>	<u>4,220,237</u>
Fund Balance - June 30	<u>\$ 2,599,349</u>	<u>\$ 3,152,566</u>	<u>\$ 3,784,140</u>

OTHER SUPPLEMENTAL INFORMATION

**TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004**

Schedule 2

	Special Revenue Funds		Debt Service Funds				Capital Project Funds 2003			
	Athletics	Food Service	1993 Debt	1999 Debt	2003 Debt	Durant Debt	Capital Project	Capital Project	Total	
Assets										
Cash and Investments	\$ 5,448	\$ 108,117	\$ -	\$ 117,645	\$ 112,285	\$ -	\$ 25,465	\$ 425,000	\$ 793,960	
Taxes Receivable	-	-	-	107	271	-	-	-	378	
Due from Other Funds	30	-	-	-	-	-	-	-	30	
Due from Other Governments	-	4,345	-	-	-	-	-	-	4,345	
Inventories	-	11,877	-	-	-	-	-	-	11,877	
Total Assets	\$ 5,478	\$ 124,339	\$ -	\$ 117,752	\$ 112,556	\$ -	\$ 25,465	\$ 425,000	\$ 810,590	
Liabilities and Fund Balance										
Liabilities										
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,600	\$ -	\$ 25,600	
Due to Other Funds	1,336	31,820	-	2,731	6,686	-	-	-	42,573	
Deferred Revenue	3,500	6,319	-	89	217	-	-	-	10,125	
Total Liabilities	4,836	38,139	-	2,820	6,903	-	25,600	-	78,298	
Fund Balances										
Reserved for Inventories	-	11,877	-	-	-	-	-	-	11,877	
Reserved for Debt Service	-	-	-	114,932	105,653	-	-	-	220,585	
Reserved for Capital Projects							(135)	425,000	424,865	
Unreserved-Undesignated	642	74,323	-	-	-	-	-	-	74,965	
Total Fund Balance	642	86,200	-	114,932	105,653	-	(135)	425,000	732,292	
Total Liabilities and Fund Balance	\$ 5,478	\$ 124,339	\$ -	\$ 117,752	\$ 112,556	\$ -	\$ 25,465	\$ 425,000	\$ 810,590	

**TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004**

Schedule 3

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>				<u>Capital Project Funds</u>		
							2003		
	Athletics	Food Service	1993 Debt	1999 Debt	2003 Debt	Durant Debt	Capital Project	Capital Project	Total
Revenue									
Local Sources	\$ 85,422	\$ 363,458	\$ 1,695	\$ 254,486	\$ 624,455	\$ -	\$ 1,251	\$ -	\$ 1,330,767
State Sources	-	26,860	-	-	-	-	-	-	26,860
Federal Sources	-	294,469	-	-	-	-	-	-	294,469
Interdistrict and Other Sources	-	-	-	-	-	-	-	-	-
Total Revenue	85,422	684,787	1,695	254,486	624,455	-	1,251	-	1,652,096
Expenditures									
Support Services									
Athletics	238,926	-	-	-	-	-	-	-	238,926
Food Service	-	667,783	-	-	-	-	-	-	667,783
Capital Projects	-	-	-	-	-	-	249,736	-	249,736
Debt Service									
Principal	-	-	-	95,000	570,000	-	-	-	665,000
Interest and Fees	-	-	-	170,754	335,995	-	-	-	506,749
Total Expenditures	238,926	667,783	-	265,754	905,995	-	249,736	-	2,328,194
Other Financing Sources (Uses)									
Financing Proceeds	-	-	-	-	-	-	-	-	-
Operating transfers in	151,000	-	-	-	151,917	-	50,000	425,000	777,917
Operating transfers out	-	(20,000)	(151,917)	-	-	-	-	-	(171,917)
Total Other Financing Sources (Uses)	151,000	(20,000)	(151,917)	-	151,917	-	50,000	425,000	606,000
Net Change in Fund Balance	(2,504)	(2,996)	(150,222)	(11,268)	(129,623)	-	(198,485)	425,000	(70,098)
Fund Balance - July 1	3,146	89,196	150,222	126,200	235,276	-	198,350	-	802,390
Fund Balance - June 30	\$ 642	\$ 86,200	\$ -	\$ 114,932	\$ 105,653	\$ -	\$ (135)	\$ 425,000	\$ 732,292

**TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF REVENUE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

(With Comparative Actual information for the Year Ended June 30, 2003)

Schedule 4

	2004		(Over) Under Budget	2003 Actual
	Budget	Actual		
Revenue				
Local Sources				
Property Taxes	\$ 1,439,850	\$ 1,449,594	\$ (9,744)	\$ 1,380,723
Other Taxes	-	-	-	-
Payments in Lieu of Taxes	-	-	-	-
Penalties and Interest on Delinquent Taxes/Taxes Abated	-	-	-	-
Tuition	139,855	140,800	(945)	70,293
Transportation Fees	14,880	46,098	(31,218)	18,190
Interest Earnings	18,900	19,137	(237)	30,958
Admissions	-	-	-	-
Rentals	2,220	2,225	(5)	1,865
Fees for Services	24,430	24,425	5	22,643
Contributions from Private Sources	10	10	-	350
Services to Other Districts	-	-	-	-
Miscellaneous	9,640	9,653	(13)	6,681
Total Local Sources	1,649,785	1,691,942	(42,157)	1,531,703
State Sources				
State Aid Unrestricted	13,671,790	13,442,787	229,003	13,772,905
State Aid Restricted	991,378	991,822	(444)	888,159
State Aid Restricted through Local District	21,090	21,092	(2)	21,028
Other State Revenue	1,580	1,580	-	-
Total State Sources	14,685,838	14,457,281	228,557	14,682,092
Federal Sources				
Direct Federal	-	-	-	-
Federal Received through the State	531,016	508,305	22,711	602,407
Federal Received through Other Districts	11,950	12,049	(99)	30,895
Total Federal Sources	542,966	520,354	22,612	633,302
Interdistrict and Other Sources				
From other Districts	226,800	230,996	(4,196)	302,054
Other	33,960	33,960	-	12,307
Total Interdistrict and Other Sources	260,760	264,956	(4,196)	314,361
Total Revenue	17,139,349	16,934,533	204,816	17,161,458
Other Financing Sources				
Sale of Fixed Assets	6,040	6,047	(7)	13,840
Operating Transfer In	20,000	20,000	-	48,750
Proceeds from Debt Financing	-	-	-	-
Total Other Financing Sources	26,040	26,047	(7)	62,590
Total Revenue and Other Financing Sources	\$ 17,165,389	\$ 16,960,580	\$ 204,809	\$ 17,224,048

TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

(With Comparative Actual Information for the Year Ended June 30, 2003)

Schedule 5

	2004		(Over) Under	
	Budget	Actual	Budget	2003 Actual
INSTRUCTION				
Basic Programs				
Elementary				
Salaries	\$ 2,944,250	\$ 2,942,657	\$ 1,593	\$ 2,928,862
Employee Benefits	1,167,540	1,168,808	(1,268)	1,153,188
Purchased Services	17,030	15,522	1,508	17,233
Supplies and Materials	137,600	136,258	1,342	142,805
Other	3,650	2,455	1,195	2,399
Capital Outlay	67,200	61,578	5,622	3,127
Total Elementary	4,337,270	4,327,278	9,992	4,247,614
Middle School				
Salaries	1,249,550	1,241,186	8,364	1,190,480
Employee Benefits	555,410	552,288	3,122	525,912
Purchased Services	6,200	5,726	474	7,724
Supplies and Materials	54,600	52,832	1,768	55,069
Other	1,510	1,383	127	1,639
Capital Outlay	38,500	38,433	67	1,860
Total Middle School	1,905,770	1,891,848	13,922	1,782,684
High School				
Salaries	1,516,740	1,508,439	8,301	1,485,575
Employee Benefits	606,010	603,437	2,573	599,983
Purchased Services	49,540	49,258	282	20,147
Supplies and Materials	67,300	66,233	1,067	71,204
Other	3,930	3,828	102	3,279
Capital Outlay	26,880	26,873	7	10,246
Total High School	2,270,400	2,258,068	12,332	2,190,434
Pre-School Instruction				
Salaries	81,930	81,867	63	68,320
Employee Benefits	41,530	37,254	4,276	25,778
Purchased Services	100	-	100	4
Supplies and Materials	1,300	1,292	8	3,837
Other	510	438	72	638
Capital Outlay	700	605	95	608
Total Pre-School Instruction	126,070	121,456	4,614	99,185

TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

(With Comparative Actual Information for the Year Ended June 30, 2003)

Schedule 5

	2004		(Over) Under	
	Budget	Actual	Budget	2003 Actual
INSTRUCTION (Continued)				
Basic Programs (Continued)				
Summer School				
Salaries	\$ 5,420	\$ 3,784	\$ 1,636	\$ -
Employee Benefits	1,060	929	131	-
Supplies and Materials	270	115	155	-
Total Drug Free Schools	6,750	4,828	1,922	-
Total Basic Programs	8,646,260	8,603,478	42,782	8,319,917
Added Needs				
Special Education				
Salaries	855,250	851,442	3,808	814,283
Employee Benefits	362,180	356,828	5,352	348,379
Purchased Services	1,450	1,010	440	6,115
Supplies and Materials	15,110	14,270	840	14,648
Other	100	100	-	897
Capital Outlay	-	-	-	4,390
Total Special Education	1,234,090	1,223,650	10,440	1,188,712
Compensatory Education				
Salaries	461,806	438,981	22,825	320,869
Employee Benefits	177,751	176,399	1,352	115,651
Supplies and Materials	11,638	8,048	3,590	4,056
Other	510	181	329	395
Capital Outlay	700	663	37	-
Total Compensatory Education	652,405	624,272	28,133	440,971
Total Added Needs	1,886,495	1,847,922	38,573	1,629,683
TOTAL INSTRUCTION	10,532,755	10,451,400	81,355	9,949,600
SUPPORTING SERVICES				
Pupil Services				
Guidance Services				
Salaries	164,670	162,430	2,240	160,277
Employee Benefits	69,090	64,783	4,307	61,934
Purchased Services	830	615	215	407
Supplies and Materials	570	561	9	39
Other	180	129	51	96
Total Guidance Services	235,340	228,518	6,822	222,753

TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

(With Comparative Actual Information for the Year Ended June 30, 2003)

Schedule 5

	2004		(Over) Under	
	Budget	Actual	Budget	2003 Actual
SUPPORTING SERVICES Continued				
Pupil Services Continued				
Health Services				
Salaries	\$ 20,020	\$ 19,909	\$ 111	\$ 19,154
Employee Benefits	6,270	6,406	(136)	5,842
Purchased Services	650	644	6	-
Supplies and Materials	770	726	44	953
Total Health Services	27,710	27,685	25	25,949
Social Services				
Salaries	151,750	151,682	68	144,714
Employee Benefits	66,060	64,930	1,130	61,411
Purchased Services	1,160	1,086	74	829
Supplies and Materials	2,840	2,528	312	1,620
Other	-	-	-	170
Capital Outlay	-	-	-	-
Total Social Services	221,810	220,226	1,584	208,744
Psychologist Services				
Salaries	65,080	64,809	271	60,194
Employee Benefits	23,950	23,560	390	22,558
Purchased Services	1,010	958	52	944
Supplies and Materials	940	900	40	216
Other	10	-	10	16
Total Psychologist Service	90,990	90,227	763	83,928
Speech Pathology				
Salaries	118,330	117,057	1,273	90,784
Employee Benefits	51,280	50,824	456	39,929
Purchased Services	390	320	70	368
Supplies and Materials	1,540	1,531	9	371
Capital Outlay	-	-	-	4,630
Total Speech Pathology	171,540	169,732	1,808	136,082
Special Education Consultant				
Salaries	18,640	18,631	9	17,328
Employee Benefits	8,400	8,338	62	7,776
Total Consultant Services	27,040	26,969	71	25,104

TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

(With Comparative Actual Information for the Year Ended June 30, 2003)

Schedule 5

	2004		(Over) Under	
	Budget	Actual	Budget	2003 Actual
SUPPORTING SERVICES Continued				
Pupil Services Continued				
Monitors				
Salaries	\$ 21,660	\$ 21,629	\$ 31	\$ -
Employee Benefits	9,240	10,844	(1,604)	-
Total Monitors	30,900	32,473	(1,573)	-
Total Pupil Services	805,330	795,830	9,500	702,560
Instructional Staff				
Improvement of Instruction				
Salaries	27,675	24,219	3,456	31,384
Employee Benefits	6,810	6,532	278	12,308
Purchased Services	24,570	24,327	243	36,925
Supplies and Materials	160	151	9	1,543
Capital Outlay	-	-	-	2,147
Total Improvement of Instruction	59,215	55,229	3,986	84,307
Library				
Salaries	287,620	287,571	49	277,634
Employee Benefits	107,100	106,794	306	101,583
Purchased Services	2,281	2,183	98	49
Supplies and Materials	20,211	20,052	159	15,140
Total Library	417,212	416,600	612	394,406
Audiovisual				
Purchased Services	-	-	-	576
Supplies and Materials	-	-	-	512
Total Audiovisual	-	-	-	1,088
Supervision and Direction of Instructional Staff				
Salaries	44,370	44,363	7	6,259
Employee Benefits	14,880	14,862	18	1,292
Supplies and Materials	-	-	-	672
Other	-	-	-	1,100
Total Supervision and Direction of Instructional Staff	59,250	59,225	25	9,323

TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

(With Comparative Actual Information for the Year Ended June 30, 2003)

Schedule 5

	2004			
	Budget	Actual	(Over) Under Budget	2003 Actual
SUPPORTING SERVICES Continued				
Instructional Staff				
Technology Assisted Instruction				
Purchased Services	\$ -	\$ 14,843	\$ (14,843)	\$ -
Supplies and Materials	-	4,004	(4,004)	-
Capital Outlay	-	44,484	(44,484)	-
Other	-	1,119	(1,119)	-
Total Technology	-	64,450	(64,450)	-
Total Instructional Staff	535,677	595,504	(59,827)	489,124
General Administration				
Board of Education				
Salaries	4,000	2,640	1,360	2,220
Employee Benefits	10	9	1	15
Purchased Services	50,050	43,364	6,686	59,523
Supplies and Materials	1,500	905	595	1,679
Capital Outlay	500	471	29	10,032
Other	10,650	9,860	790	14,135
Total Board of Education	66,710	57,249	9,461	87,604
Executive Administration				
Salaries	185,100	184,430	670	220,372
Employee Benefits	66,980	65,984	996	80,141
Purchased Services	11,600	10,807	793	9,940
Supplies and Materials	1,900	1,613	287	389
Other	2,500	1,868	632	2,149
Capital Outlay	10,110	10,021	89	-
Total Executive Administration	278,190	274,723	3,467	312,991
Total General Administration	344,900	331,972	12,928	400,595
School Administration				
Office of the Principals				
Salaries	774,122	763,373	10,749	750,701
Employee Benefits	283,760	280,253	3,507	274,118
Purchased Services	14,800	11,539	3,261	11,596
Supplies and Materials	5,490	3,986	1,504	2,942
Other	6,860	6,718	142	6,798
Total School Administration	1,085,032	1,065,869	19,163	1,046,155

TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

(With Comparative Actual Information for the Year Ended June 30, 2003)

Schedule 5

	2004		(Over) Under	
	Budget	Actual	Budget	2003 Actual
SUPPORTING SERVICES Continued				
Business Services				
Fiscal Services				
Salaries	\$ 147,900	\$ 146,399	\$ 1,501	\$ 150,162
Employee Benefits	76,150	75,118	1,032	76,548
Purchased Services	7,260	6,815	445	6,468
Supplies and Materials	4,200	4,010	190	4,442
Other	600	398	202	471
Capital Outlay	1,500	1,500	-	-
Total Fiscal Services	237,610	234,240	3,370	238,091
Other Business Services				
Purchased Services	60,670	60,640	30	49,714
Other	51,710	49,925	1,785	28,538
Total Other Business Services	112,380	110,565	1,815	78,252
Total Business Services	349,990	344,805	5,185	316,343
Operations and Maintenance				
Salaries	677,010	671,887	5,123	624,545
Employee Benefits	360,910	356,867	4,043	343,267
Purchased Services	535,450	487,055	48,395	397,311
Supplies and Materials	143,720	134,610	9,110	133,744
Other	8,190	6,774	1,416	10,752
Capital Outlay	19,600	19,541	59	114,250
Total Operations and Maintenance	1,744,880	1,676,734	68,146	1,623,869
Pupil Transportation				
Salaries	624,490	622,276	2,214	623,125
Employee Benefits	328,400	319,427	8,973	315,465
Purchased Services	26,460	23,917	2,543	52,615
Supplies and Materials	115,850	101,701	14,149	98,513
Other	1,810	1,544	266	6,175
Capital Outlay	6,110	5,412	698	157,209
Total Pupil Transportation	1,103,120	1,074,277	28,843	1,253,102

TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

(With Comparative Actual Information for the Year Ended June 30, 2003)

Schedule 5

	2004			
	Budget	Actual	(Over) Under Budget	2003 Actual
SUPPORTING SERVICES Continued				
Technology				
Salaries	\$ 45,000	\$ 45,000	\$ -	\$ 42,500
Employee Benefits	20,750	20,445	305	19,773
Purchased Services	81,075	64,771	16,304	33,381
Supplies and Materials	4,900	882	4,018	4,704
Capital Outlay	48,000	3,441	44,559	48,460
Other	18,990	17,863	1,127	15,167
Total Technology	218,715	152,402	66,313	163,985
 TOTAL SUPPORTING SERVICES	 6,187,644	 6,037,393	 150,251	 5,995,733
COMMUNITY SERVICES				
Child Care				
Salaries	16,600	16,578	22	16,373
Employee Benefits	3,520	3,363	157	3,372
Purchased Services	100	40	60	86
Supplies and Materials	1,600	1,552	48	864
Total Child Care	21,820	21,533	287	20,695
Other Community Services				
Salaries	34,650	33,340	1,310	-
Employee Benefits	7,210	5,650	1,560	-
Purchased Services	2,110	2,087	23	-
Supplies and Materials	1,800	1,312	488	-
Capital Outlay	6,720	6,716	4	-
Total Other Community Services	52,490	49,105	3,385	-
TOTAL COMMUNITY SERVICES	74,310	70,638	3,672	20,695
PAYMENTS TO OTHER GOVERNMENTAL UNITS				
Other Local Districts	177,660	174,539	3,121	266,788

TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

(With Comparative Actual Information for the Year Ended June 30, 2003)

Schedule 5

	2004		(Over) Under	
	Budget	Actual	Budget	2003 Actual
BUILDING IMPROVEMENT SERVICES				
Capital Outlay	\$ 17,930	\$ 16,408	\$ 1,522	\$ -
DEBT SERVICE				
Principal Payments	12,140	12,138	2	16,548
OTHER TRANSACTIONS				
Other Transactions	8,500	8,161	339	630
TOTAL EXPENDITURES	17,010,939	16,770,677	240,262	16,249,994
OTHER FINANCING USES				
Fund Modifications				
Capital Project Fund	425,000	425,000	-	-
2003 Capital Projects Fund	50,000	50,000	-	200,000
Interscholastic Athletics Fund	165,000	151,000	14,000	150,000
TOTAL OTHER FINANCING USES	640,000	626,000	14,000	350,000
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 17,650,939	\$ 17,396,677	\$ 254,262	\$ 16,599,994

**TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
ATHLETICS FUND
BALANCE SHEET
YEAR ENDED JUNE 30, 2004**

(With Comparative Information for the Year Ended June 30, 2003)

Schedule 6

	<u>2004</u>	<u>2003</u>
Assets		
Cash and Investments	\$ 5,448	\$ 1,707
Due from Other Funds	<u>30</u>	<u>3,709</u>
Total Assets	<u>\$ 5,478</u>	<u>\$ 5,416</u>
Liabilities and Fund Balance		
Liabilities		
Accounts Payable	\$ -	\$ 2,270
Due to Other Funds	1,336	-
Deferred Revenue	<u>3,500</u>	<u>-</u>
Total Liabilities	4,836	2,270
Fund Balance	<u>642</u>	<u>3,146</u>
Total Liabilities and Fund Balance	<u>\$ 5,478</u>	<u>\$ 5,416</u>

**TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
ATHLETICS FUND
SCHEDULE OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

(With Comparative Actual Information for the Year Ended June 30, 2003)

Schedule 7

	<u>2004</u>		(Over)	
	<u>Budget</u>	<u>Actual</u>	<u>Under</u>	<u>2003</u>
			<u>Budget</u>	<u>Actual</u>
Revenue				
Admissions and Fees	\$ 69,930	\$ 71,503	\$ (1,573)	\$ 54,990
Contributions and Other	<u>15,130</u>	<u>13,919</u>	<u>1,211</u>	<u>7,356</u>
Total Revenue	85,060	85,422	(362)	62,346
Expenditures				
Salaries	136,820	136,495	325	133,319
Employee Benefits	31,220	30,900	320	27,217
Purchased Services	36,610	34,107	2,503	27,680
Supplies and Materials	24,120	23,862	258	18,422
Other	13,910	13,562	348	13,250
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	242,680	238,926	3,754	219,888
Other Financing Sources				
Operating Transfers In	<u>155,000</u>	<u>151,000</u>	<u>4,000</u>	<u>150,000</u>
Net Change in Fund Balance	(2,620)	(2,504)	(116)	(7,542)
Fund Balance - July 1	<u>3,146</u>	<u>3,146</u>	<u>-</u>	<u>10,688</u>
Fund Balance - June 30	<u>\$ 526</u>	<u>\$ 642</u>	<u>\$ (116)</u>	<u>\$ 3,146</u>

**TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
FOOD SERVICE FUND
BALANCE SHEET
YEAR ENDED JUNE 30, 2004**

(With Comparative Information for the Year Ended June 30, 2003)

Schedule 8

	<u>2004</u>	<u>2003</u>
Assets		
Cash and Investments	\$ 108,117	\$ 105,505
Accounts Receivable	-	-
Due From Other Governments	4,345	4,423
Inventories	<u>11,877</u>	<u>8,587</u>
Total Assets	<u>\$ 124,339</u>	<u>\$ 118,515</u>
Liabilities and Fund Balance		
Liabilities		
Accounts Payable	\$ -	\$ 51
Due to Other Funds	31,820	29,268
Deferred Revenues	<u>6,319</u>	<u>-</u>
Total Liabilities	38,139	29,319
Fund Balances		
Reserved for Inventories	11,877	8,587
Unreserved-Undesignated	<u>74,323</u>	<u>80,609</u>
Total Fund Balance	<u>86,200</u>	<u>89,196</u>
Total Liabilities and Fund Balance	<u>\$ 124,339</u>	<u>\$ 118,515</u>

**TRI COUNTY AREA SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
FOOD SERVICE FUND
SCHEDULE OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

(With Comparative Actual Information for the Year Ended June 30, 2003)

Schedule 9

	2004		(Over)	
	Budget	Actual	Under	2003 Actual
			Budget	
Revenue				
Local Sources				
Sales	\$ 360,170	\$ 360,185	\$ (15)	\$ 366,947
Miscellaneous	2,550	2,583	(33)	2,044
Interest Revenue	700	690	10	1,238
Total Local Sources	363,420	363,458	(38)	370,229
State Sources				
Restricted State Aid	16,520	26,860	(10,340)	45,005
Federal Sources				
Federal Aid Received through the State	271,060	265,088	5,972	241,178
USDA Food Commodities	34,200	29,381	4,819	25,817
Total Federal Sources	305,260	294,469	10,791	266,995
Total Revenue	685,200	684,787	413	682,229
Expenditures				
Salaries	241,930	237,220	4,710	242,528
Employee Benefits	122,620	117,062	5,558	118,874
Purchased Services	5,280	4,605	675	5,415
Supplies and Materials	312,320	303,592	8,728	285,896
Other	3,070	2,976	94	2,183
Capital Outlay	2,330	2,328	2	298
Total Expenditures	687,550	667,783	19,767	655,194
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers Out	(20,000)	(20,000)	-	(48,750)
Total Other Financing Sources (Uses)	(20,000)	(20,000)	-	(48,750)
Net Change in Fund Balance	(22,350)	(2,996)	(19,354)	(21,715)
Fund Balance - July 1	89,196	89,196	-	110,911
Fund Balance - June 30	\$ 66,846	\$ 86,200	\$ (19,354)	\$ 89,196

OTHER SUPPLEMENTAL - COMPLIANCE

**TRI COUNTY AREA SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004**

Exhibit 1

FEDERAL GRANTOR

Pass-Through Grantor

PROGRAM TITLE	CFDA Number	Grant Award Amount	Accrued (Deferred) Revenue 07/01/03	Memo Only Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Returns)	Accrued (Deferred) Revenue 06/30/04	Adjustments	Revenue Recognized
Project Number/Description									

US DEPARTMENT OF AGRICULTURE

Passed Through Michigan Department of Education

USDA DONATED COMMODITIES	10.550								
Entitlement Commodities FY 03-04		\$ -	\$ -	\$ 23,400	\$ 24,446	\$ 24,446	\$ -	\$ -	24,446
Bonus Commodities FY 03-04		-	-	2,417	4,935	4,935	-	-	4,935
Total Commodities		-	-	25,817	29,381	29,381	-	-	29,381
CHILD NUTRITION CLUSTER:									
NATIONAL SCHOOL LUNCH PROGRAM	10.555								
FY 03-04		203,436	-	187,311	203,436	203,436	-	-	203,436
NATIONAL SCHOOL LUNCH - BREAKFAST PROGRAM	10.553								
FY 02-03		61,652	-	53,867	61,652	61,652	-	-	61,652
Total Child Nutrition Cluster		265,088	-	241,178	265,088	265,088	-	-	265,088
TOTAL US DEPARTMENT OF AGRICULTURE		\$ 265,088	\$ -	\$ 266,995	\$ 294,469	\$ 294,469	\$ -	\$ -	\$ 294,469

US DEPARTMENT OF EDUCATION

Passed Through Michigan Department of Education

ECIA TITLE I	84.010								
Project 031530-0203		\$ 446,473	\$ 83,628	\$ 437,190	\$ 9,283	\$ 92,911	\$ -	\$ -	\$ 9,283
Project 041530-0304		389,471	-	-	364,916	120,786	244,130	-	364,916
Total ECIA Title I		835,944	83,628	437,190	374,199	213,697	244,130	-	374,199
TITLE VI INNOVATIVE EDUC PROGRAM STRATEGIES	84.298								
030250-0203		1,890	1,034	1,890	-	1,034	-	-	-
TITLE V LEA ALLOCATION	84.298								
040250-0304		1,888	-	-	1,888	-	1,888	-	1,888

The accompanying notes are an integral part of this schedule.

TECHNOLOGY LITERACY CHALLENGE GRANTS	84.318								
034290-0203		11,036	75	11,036	-	75	-	-	-
034290-0304		1,846	-	-	1,846	-	1,846	-	1,846
044290-0304		<u>9,432</u>	<u>-</u>	<u>-</u>	<u>9,432</u>	<u>-</u>	<u>9,432</u>	<u>-</u>	<u>9,432</u>
Total Technology Literacy Challenge Grants		22,314	75	11,036	11,278	75	11,278	-	11,278
 TITLE II PART A IMPROVING TEACHER QUALITY	84.367								
030520-0203		126,298	45,644	126,298	-	45,644	-	-	-
040520-0304		<u>120,940</u>	<u>-</u>	<u>-</u>	<u>120,940</u>	<u>-</u>	<u>120,940</u>	<u>-</u>	<u>120,940</u>
Total Title II Part A Improving Teacher Quality		247,238	45,644	126,298	120,940	45,644	120,940	-	120,940
 Passed through Marquette-Alger RESD									
PERSONNEL DEVELOPMENT MINI GRANT	84.027								
Project 03-032		5,000	-	-	4,997	4,997	-	-	4,997
 Passed through Kent ISD									
SAFE AND DRUG FREE SCHOOLS	84.186	<u>7,052</u>	<u>-</u>	<u>-</u>	<u>7,052</u>	<u>7,052</u>	<u>-</u>	<u>-</u>	<u>7,052</u>
 TOTAL US DEPARTMENT OF EDUCATION		<u>\$ 1,121,326</u>	<u>\$ 130,381</u>	<u>\$ 576,414</u>	<u>\$ 520,354</u>	<u>\$ 272,499</u>	<u>\$ 378,236</u>	<u>\$ -</u>	<u>\$ 520,354</u>
 GRAND TOTAL		<u>\$ 1,386,414</u>	<u>\$ 130,381</u>	<u>\$ 843,409</u>	<u>\$ 814,823</u>	<u>\$ 566,968</u>	<u>\$ 378,236</u>	<u>\$ -</u>	<u>\$ 814,823</u>
 Total Passed Through Michigan Department of Education		1,374,362	130,381	843,409	802,774	554,919	378,236	-	802,774
Total Passed Through By Other Agencies		<u>12,052</u>	<u>-</u>	<u>-</u>	<u>12,049</u>	<u>12,049</u>	<u>-</u>	<u>-</u>	<u>12,049</u>
Grand Total		<u>\$ 1,386,414</u>	<u>\$ 130,381</u>	<u>\$ 843,409</u>	<u>\$ 814,823</u>	<u>\$ 566,968</u>	<u>\$ 378,236</u>	<u>\$ -</u>	<u>\$ 814,823</u>

The accompanying notes are an integral part of this schedule.

TRI COUNTY AREA SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

Exhibit 2

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used to prepare the Schedule of Expenditures of Federal Awards conform to generally accepted accounting principles as applicable to governmental entities. Refer to the Notes to the Financial Statements for additional explanations.

The Schedule of Expenditures of Federal Awards has been arranged in such a manner so as to provide information on both actual cash received and the resultant revenue recognized. Accordingly, the effect of accruals of Accounts Receivable, Deferred Revenue, and Accounts Payable have been reported.

NOTE 2 - MICHIGAN DEPARTMENT OF EDUCATION REQUIRED DISCLOSURES

The Grants Section Auditors Report (Form R7120) has been utilized in preparing the Schedule of Expenditures of Federal Awards. Applicable receipts reconcile with this schedule.

The amount reported on the Recipient Entitlement Balance Report or PAL Report agrees with this Schedule for USDA Donated Food Commodities.

Adjustments and Reconciliation of Variances as Compared to June 30, 2003 Schedule of Expenditures of Federal Awards

Award amounts on the following projects were adjusted from 2003 to 2004. The adjustments did not have an effect on revenue received or to be deferred, consequently the only column which reflects these changes is the award amount column.

<u>Award</u>	<u>6/30/04</u> <u>Award</u>	<u>6/30/03</u> <u>Award</u>
Technology Literacy Challenge Grant - 034290-0203	\$ 11,036	\$ 12,882



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

October 21, 2004

Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have audited the financial statements of Tri County Area Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated October 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Tri County Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described as follows:

- 1) The District had instances in which actual expenditures exceeded budget amounts as disclosed in Note 2 to the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri County Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Tri County Area School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-1 and 04-2.

Board of Education
Tri County Area Schools
Sand Lake, Michigan

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe items 04-01 and 04-2 to be material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to management of Tri County Area Schools in a separate letter dated October 21, 2004.

This report is intended solely for the information and use of management, the Michigan Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 21, 2004

Board of Education
Tri County Area Schools
Sand Lake, Michigan

Compliance

We have audited the compliance of Tri County Area Schools with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Special Tests and Provisions applicable to the Title I Program at Tri County Area Schools include carryover and obligation of Grant Funds. Tri County Area School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of the laws, regulations, contracts and grant applicable to each of its major federal programs is the responsibility of Tri County Area School's Management. Our responsibility is to express an opinion of Tri County Area School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tri County Area School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Tri County Area School's compliance with those requirements.

In our opinion, Tri County Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Board of Education
Tri County Area Schools
Sand Lake, Michigan

Internal Control Over Compliance

The management of Tri County Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contractors and grants applicable to federal programs. In planning and performing our audit, we considered Tri County Area School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Tri County Area School's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grant. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, the Michigan Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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**TRI COUNTY AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

Schedule 3

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☒ Yes ☐ No

Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ No

Noncompliance material to financial statements noted? ☒ Yes ☐ No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? ☒ Yes ☐ No

Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.367	Title II Part A

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

**TRI COUNTY AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

Schedule 3

Finding #

CURRENT YEAR FINDINGS RELATING TO GENERAL PURPOSE FINANCIAL STATEMENTS

INTERNAL CONTROL

04-1 DEPOSITS OF ATHLETIC RECEIPTS

Finding: Several instances were noted where the Athletics receipts were not deposited in the bank until up to 12 days after the date of the receipt.

Criteria: Receipts are to be deposited in a timely manner.

Effect: Cash was held and not deposited for up to 12 days increasing the risk of loss of assets due either to error or fraud.

Cause: Personnel not aware of the need to deposit receipts in a timely manner.

Recommendation: Money collected should be deposited on the same day it is received. If received in the evening, the money should be deposited in the bank's night deposit box.

04-2 ACCRUAL OF LIABILITIES

Finding: The MESSA Payable amount at June 30, 2004 did not include a rate increase effective July 1, 2004 for the amounts due for July and August.

Criteria: Since the new rate would have been paid for employee's even if they had been terminated prior to June 30, 2004 per the contract, that rate should be recognized in the current year.

Effect: The liability and related expenditures would have been under stated if not corrected.

Cause: The liability was reported at the rate originally quoted by the vendor rather than at the revised rate.

Recommendation: The liability must be reported at the rate that will actually be paid and not the rate originally quoted at the beginning of the year.

CURRENT YEAR FINDINGS RELATING TO FEDERAL AWARDS

INTERNAL CONTROL

Finding 04-2 from above could also affect all Federal Programs.

**TRI COUNTY AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

Schedule 3

DISPOSITION OF PRIOR YEAR FINDINGS

03-1 ALLOCATION TO ELIGIBLE ATTENDANCE AREAS

Finding: The "*Title I School Selection and Allocation of Funds Worksheet*" was inaccurately prepared.

Current Status: The worksheet was accurately prepared for the current year.



Tri County Area Schools
Academics • Arts • Athletics • Achievement

JAMES K. SCHOLTEN, SUPERINTENDENT OF SCHOOLS

November 9, 2004

To Whom It May Concern:

Regarding items 04-01 and 04-02 on page 62 of the Tri County Area Schools Audited Financial Statements report, Tri County Area Schools has done the following to correct the concern:

- The Athletic Director and Business Manager will communicate with key personnel the importance of depositing funds immediately after events occur. The Business Office will conduct frequent internal audits of timeliness of deposits.
- The Business Manager will ensure the insurance premium changes are included in the July and August payable.

We feel this should correct the problem.

Sincerely,



James K. Scholten



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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 21, 2004

Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have recently completed our audit of the financial statements of Tri County Area Schools for the year ended June 30, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of Tri County Area Schools in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

The District's chart of accounts changed significantly during the year and while every effort was made by the business office to provide the full chart of accounts to our office with enough time to update our system, it was not received with enough time to address prior to commencing fieldwork. It was also noted while entering beginning balances that the District's system provided inaccurate reports that caused an out of balance situation that was later rectified.

Several other factors aided in delaying the issuance of the financial statements which include, but are not limited to, the following: delays in receiving property tax settlement reports from various townships; various illnesses and other health related issues of key personnel; and, conflicts with other scheduled work once all information was received.

COMMENTS/RECOMMENDATIONS REGARDING CONTROLS AND EFFICIENCIES

In planning and performing our audit of the financial statements of Tri County Area Schools, for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the June 30, 2004, financial statements, and this report does not affect our report on those financial statements dated October 21, 2004. We have not considered internal control since the date of our report.

REPORTABLE CONDITIONS (MATERIAL WEAKNESSES)

ATHLETICS

During receipt testing it was noted that there were several instances where money collected for gate receipts was not deposited in a timely manner. Money was held for 5 to 12 days before being deposited with a financial institution. Money collected should be deposited on the day it is received, if received in the evening, the money should be deposited in the bank's night deposit box (Repeated Comment).

BENEFITS PAYABLE

The MESSA Payable amount at June 30, 2004 did not include a rate increase effective July 1, 2004 for the amounts due for July and August. The payable was booked at the rate originally quoted by the vendor. However, an adjustment was required to record the payable at the new rate as the District would be liable to pay the benefits at that new rate even if the employee were terminated beforehand based on the contract. We must caution the board that non-GAAP presentations being made in the districts primary accounting records could be construed as intentional misrepresentation of financial data. If the board would like a presentation other than that provided for GAAP purposes then such should be done independent of the districts primary accounting records.

OTHER MATTERS

PAYROLL

It was noted during payroll testing that several employee's withholding status per the system did not agree with the W-4 on file. However, it was also noted that letters are sent to employee's every year informing them that they need to verify their withholding status. It is recommended that the District establish policies and procedures to ensure that the proper amount is being withheld from employees.

SUMMARY

We would like to thank the District's personnel and Officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

This report is intended solely for the information and use of management, the Michigan Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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